

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Mercer County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$1,394 from the prior year, resulting in excess fees of \$33,957 as of December 31, 2009. Revenues increased by \$35,512 from the prior year and expenditures increased by \$36,906.

Leases:

Lease agreements totaled \$3,748 as of December 31, 2009.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Owes The Fiscal Court Additional Excess Fees

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Milward Dedman, Mercer County Judge/Executive
The Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Mercer County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2010 on our consideration of the Mercer County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Milward Dedman, Mercer County Judge/Executive
The Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Owes The Fiscal Court Additional Excess Fees

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Mercer County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 21, 2010

MERCER COUNTY
CHRIS KEHRT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grants		\$	2,865	
State - Kentucky Law Enforcement Foundation Program Fund				29,726
State Fees For Services:				
Finance and Administration Cabinet	\$	46,166		
Arrest Fees		3,012		
Security Service		13,516		
In Lieu of Taxes		1,370		
Fee for Fiscal Court		11,090		75,154
Fiscal Court				72,067
County Clerk - Delinquent Taxes				4,198
Commission On Taxes Collected				427,583
Fees Collected For Services:				
Auto Inspections		3,628		
Accident and Police Reports		1,429		
Serving Papers		46,620		
Carrying Concealed Deadly Weapon Permits		4,165		
Prisoner Transport		897		56,739
Miscellaneous				5,227
Interest Earned				2,125
Borrowed Money:				
State Advancement				188,221
Total Revenues				863,905

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 CHRIS KEHRT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputy's Gross Salaries	\$	407,843	
Other Gross Salaries		1,844	
KLEFPF		28,827	\$ 438,514

Contracted Services-

Advertising		284	
Communications		21,315	
Tax Bill Preparation		2,550	24,149

Materials and Supplies-

Conveying Convicts		5,794	
Office Materials and Supplies		12,969	
Officers' Supplies		12,268	
Uniforms		4,303	
Miscellaneous		5,185	
Bloodtest Kits		406	40,925

Auto Expense-

Gasoline		28,279	
Maintenance and Repairs		12,832	41,111

Other Charges-

Training		1,560	
Dues		806	
Postage		5,076	
Fees Paid to Fiscal Court		11,090	18,532

Debt Service:

State Advancement			188,221
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Total Expenditures			\$ 751,452
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The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
CHRIS KEHRT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Net Revenues	\$ 112,453
Less: Statutory Maximum	<u>76,734</u>
Excess Fees	35,719
Less: Training Incentive Benefit	<u>1,762</u>
Excess Fees Due County for 2009	33,957
Payment to Fiscal Court - March 9, 2010	<u>31,000</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 2,957</u></u>

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months of the year.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9.0 percent of their salary to the plan to be allocated as follows: 8.0 percent will go to the member's account and 1.0 percent will go to the KERS Insurance Fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Mercer County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Mercer County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Leases

The Sheriff's office was committed to the following lease agreements as of December 31, 2009:

Item	Monthly	Term of	Ending	Principal Balance
Purchased	Payment	Agreement	Date	December 31, 2009
copier	\$ 171	60 months	6/30/2011	\$ 3,078
postage meter	45	54 months	3/11/2011	670

During calendar year 2009, the Sheriff's office paid off a lease agreement with Government Utilities Technology Services, Inc. (GUTS) for computer software.

Note 5. Grant Account

As of January 1, 2009, the grant account had a balance of \$500. The balance was unexpended grant receipts from Purdue Pharma Technologies which was paid over to the fee account in June 2009. In July 2009, the grant account was reopened with a \$500 donation from Wal-Mart. In October 2009, the Sheriff's Office received a grant from the Kentucky Office of Homeland Security. The grant proceeds were to be used to purchase patrol rifles. Grant proceeds totaled \$2,865 during the year. The unexpended balance in the grant account totaled \$3,365 as of December 31, 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Milward Dedman, Mercer County Judge/Executive
The Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Mercer County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated May 21, 2010. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Owes The Fiscal Court Additional Excess Fees

This report is intended solely for the information and use of management, the Mercer County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

May 21, 2010

COMMENTS AND RECOMMENDATIONS

MERCER COUNTY
CHRIS KEHRT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of controls over receipts and disbursements, we noted that the Sheriff's office lacks adequate segregation of duties because there are no reviews performed on financial information that the bookkeeper manages. The bookkeeper prepares the daily checkout sheets, deposit tickets, disbursement checks, bank reconciliations, and quarterly reports. The bookkeeper takes all deposits to the bank. In an effort to decrease the risk of a misappropriation of assets and/or inaccurate financial reporting, we recommend the Sheriff segregate some of these duties among different employees or implement some compensating controls to help offset this internal control weakness. Some examples of segregated duties or compensating controls are as follows:

- Sheriff assign an office clerk to perform the bank reconciliations.
- Sheriff document a periodic review of the checkout sheets and deposit tickets.
- Sheriff document a monthly review of the bank reconciliations.
- Sheriff document random cash counts on the deposit tickets.
- Sheriff document the review of the quarterly reports.
- Sheriff take the deposits to the bank.
- Sheriff approve all major disbursements before check is issued.

Sheriff's Response: None.

COMPLIANCE AND OTHER MATTERS:

The Sheriff Owes The Fiscal Court Additional Excess Fees

During our audit, it was determined the Sheriff owes additional excess fees of \$2,957 for 2009. This amount includes \$2,865 of grant revenue that should have been deposited into the 2009 fee account for the purchase of patrol rifles. The auditor also found that the Sheriff owes additional excess fees of \$253 for 2007. During our review of bank information, it was noted that the beginning balance in the fee account was only \$223, which was due to a \$30 NSF check. When the NSF check was collected, the money was deposited into the tax account instead of the fee account. We recommend that the Sheriff deposit the \$2,895 into the fee account, of which \$2,865 comes from the grant account and \$30 comes from the tax account, then pay the total excess fees due the Fiscal Court.

Sheriff's Response: None.

